CHAPTER 9: MONITORING BORROWER COMPLIANCE

9.1 INTRODUCTION

When borrowers accept Agency loan and grant funds, they agree to operate the property in accordance with program objectives and comply with program requirements established by the Agency. To ensure that borrowers meet these responsibilities, the Agency monitors borrower performance and takes action as needed to see that borrowers fulfill their responsibilities. The previous chapters have described the program requirements for multi-family housing projects and the Agency's procedures for implementing these requirements. This chapter describes the Agency's procedures for monitoring multi-family housing projects to ensure that these requirements are met.

Section 1 of this chapter provides an overview of Agency monitoring activities. Section 2 describes the procedures for performing monitoring activities that are done in the office using borrower submissions. Section 3 presents the procedures for performing monitoring activities conducted at the project. Section 4 describes the project classification system. Section 5 discusses monitoring Labor Housing projects for compliance with program requirements. Section 6 provides an overview of State Office oversight of servicing activities.

9.2 AGENCY MONITORING OBJECTIVES AND PRIORITIES

A. Monitoring Objectives

The Agency will monitor project operations to:

- Ensure the project is managed in accordance with the goals and objectives of the multi-family housing program;
- Preserve the value of the property;
- Ensure that the property is maintained in accordance with Agency requirements for providing housing that is decent, safe, sanitary, and affordable;
- Ensure that the project is operated at actual, necessary, and reasonable costs;
- Detect waste, fraud, and abuse;
- Verify compliance with occupancy requirements; and
- Ensure compliance with affirmative fair housing marketing requirements and the Civil Rights Act of 1968, as amended in 1988.

B. Monitoring Priorities

The Agency will monitor the performance of all borrowers. However, to make the best use of its available resources, the Agency will give priority in its monitoring efforts to borrowers with projects that have the greatest risk of poor performance or compliance violations. By focusing more attention on projects experiencing problems, and those likely to experience problems, the Agency can maximize the effect of its monitoring activities.

Agency monitoring efforts involve three levels of activities:

- **Routine Monitoring**. For projects with limited risk of performance or compliance problems, Loan Servicers will conduct routine monitoring. This level of monitoring involves regular checks of project compliance through reviews of regular borrower submissions and periodic on-site visits.

- **Intensive Monitoring**. For projects with a higher risk of performance or compliance problems, Loan Servicers will conduct intensive monitoring. This level of monitoring involves not only regular checks of project compliance, but also more frequent borrower reporting and on-site visits by Agency staff.

- **Quality Control**. While Loan Servicers conduct routine and intensive monitoring, State Offices are responsible for oversight of Field Office monitoring efforts. State Offices have a set of goals for Field Office performance and must use MFIS, AMAS, and other monitoring reports to ensure that Field Offices are meeting these goals. Additional State Office oversight of Field Office performance is conducted through the State Internal Review (SIR) process.

The procedures for determining the level of monitoring that is appropriate for projects are described in paragraph 9.5.

9.3 BORROWER RESPONSIBILITIES

Borrowers are responsible for cooperating fully with the Agency staff performing monitoring activities. The Agency will notify borrowers in writing of any deficiencies or compliance violations identified during its review. Borrower must address these deficiencies within the correction period established by the Agency and described in the notice.

SECTION 1: OVERVIEW OF AGENCY MONITORING

9.4 AGENCY MONITORING REVIEWS

A. Key Parties in the Monitoring Process

Monitoring involves a range of staff from the Agency and throughout the Department. Borrowers, their management agents, and tenants also need to be active participants in the monitoring process. Exhibit 9-1 lists the key parties in the monitoring process.

Exhibit 9-1

Key Participants in the Monitoring Process

Agency and USDA Staff	Other Parties
• Loan Servicer • Architectural/Engineering staff • Environmental staff • Civil Rights staff • Office of General Counsel (OGC)	• Borrower • Management agent ◊ Manager (On-site or Off-site) ◊ Supervisor ◊ Project staff (e.g., leasing, maintenance) • Tenants

1. Agency and Other USDA Staff

Effective monitoring of borrower performance requires a coordinated effort on the part of Agency staff from several areas. While Loan Servicers hold primary responsibility for monitoring borrowers and their projects, staff from other offices will often assist in performing monitoring reviews. For example, the State Architect/Engineer may assist in performing physical inspections when Loan Servicers have specific concerns about a project. When performing reviews of the central office of a management agent with properties in several states, Loan Servicers will need to coordinate with their counterparts from the respective states. Finally, if monitoring activities identify significant deficiencies, Loan Officers will often need to obtain the advice of staff from the Office of General Counsel (OGC).

2. Borrowers, Management Staff, and Tenants

While the Agency holds responsibility for performing monitoring activities, effective monitoring also requires the cooperation of borrowers and their agents. Their involvement during monitoring reviews is needed to provide access to records and to answer questions about project operations and procedures. Further, when deficiencies are discovered, borrowers as well as the management agent need to be informed so that prompt action can be taken to correct the problem. Borrowers notified of deficiencies are responsible for ensuring that the problem is corrected and for keeping the Agency informed about actions taken to address the problems.

Tenants are also important participants in the monitoring process because they can provide valuable information about project operations.

B. Monitoring Methods and Activities

The Agency uses two basic types of monitoring methods.

- **Desk Reviews**. These reviews involve examining project reports submitted by the borrower. Generally, Loan Servicers perform these reviews.

- **On-Site Reviews**. These reviews are conducted at the project and involve the inspection of both project conditions and records. Loan Servicers will often draw on the technical expertise of other staff to assist in performing these reviews.

The specific reviews that fall into each category are summarized in Exhibit 9-2. Each of these reviews is described in greater detail in subsequent sections of this chapter.

Exhibit 9-2

Agency Monitoring Reviews

Desk Reviews	On-Site Reviews
Quarterly/Monthly Reports	Post-Occupancy Review
Annual Project Financial Report	**Annual Physical Reviews**
Occupancy Trends/Vacancy Turnover	Physical Inspection
Unused RA	Occupancy Review
Agency Internal Quality Control	Management Review
Tenant Subsidy Review	Compliance Review
Note: **Routine reviews** are listed in bold.	

C. Key Documents and Sources of Information

The Agency relies on a range of sources to inform its monitoring activities. These sources are summarized in Exhibit 9-3.

Exhibit 9-3

Key Sources of Information for Agency Monitoring

Agency Records	Project Records	Other Sources
Project Case File		
Loan Agreement/Resolution	Project Worksheets	On-Site Visits by Agency Staff
Interest Credit Agreement	Project Budgets	Reports from other Agency Staff
Rental Assistance Agreement	Annual Financial Report (Audit)	Tenant Reports/Complaints
Affirmative Fair Housing Marketing Plan	Financial Records	Reports/Information from Local Officials
Lease	Tenant Files (eligibility documentation)	Reports/Information from Community Members
Management Profile	Marketing Records and Applications	Compliance monitoring and inspection reports received from other financing or subsidy sources involved with the property
Management Certification	Waiting Lists	
Management Plan	Maintenance Records	
Promissory Note	Occupancy Policies	
Annual Financial Statements	Occupancy Rules	
Borrower Organizational Documents		
Automated Systems		
AMAS		
MFIS		

1. Agency Records

The project case file and other Agency records provide information about the specific responsibilities of the borrower and also the operation of the project. As discussed in previous chapters, program requirements vary depending on the type of project and the type of financing the borrower received. The case file documents indicate the type of project and the specific terms of the Agency's financing. For example, these documents specify the replacement reserve requirements and the owner's annual return. The case file also contains the management profile, as well as the management plan and certification, which provide key information about project operations.

Agency records include the automated systems used to administer the program. AMAS and MFIS contain information that aids in monitoring projects.

Official records contain legal evidence of all transactions between the Agency and the persons with whom it conducts business. For information about the required contents and organization of the borrower case file, please refer to RD Instruction 2033-A, Records Management in Rural Development Field Offices.

2. Project Records

Project records are documents that provide information about the ongoing operation of the project. Project worksheets, budgets, and tenant certifications are examples. Loan Servicers examine these records during monitoring reviews to evaluate project performance and compliance.

3. Other Sources

In addition to site visits conducted by Loan Servicers or other staff to observe project operations, the Agency also draws on other sources to inform monitoring activities. Substantiated reports by tenants or community members noting inadequate conditions or improper practices are examples. Reports of performance problems in other states involving the same borrower or agent are also a source of concern. This type of information does not necessarily confirm that a problem is present, but indicates a need for further review of a project's operations.

9.5 PLANNING MONITORING ACTIVITIES

Planning monitoring activities involves scheduling routine reviews and determining the extent to which in-depth monitoring needs to be conducted. Loan Servicers and their Multi-Family Housing Program Directors should review annually their plan to monitor their portfolio. Exhibit 9-3 indicates the reviews that are performed routinely and those classified as in-depth reviews.

A. Routine Monitoring

Each year, Loan Servicers must schedule routine monitoring reviews and designate the staff that will perform these functions. These activities, together with the regular program administration activities performed by Loan Servicers, ensure that all projects receive a basic level of oversight each year to check for evidence of deficiencies or potential problems.

In scheduling these activities, Loan Servicers need to ensure that the appropriate staff are available to perform these reviews. Annual physical reviews should be planned to coincide wherever possible with other activities that take staff to the vicinity of the projects.

B. In-Depth Monitoring

When planning monitoring activities for the year, Loan Servicers must determine which projects warrant in-depth reviews and the types of reviews needed. In-depth reviews are done periodically to check for continued project compliance. These reviews are also performed more frequently for projects experiencing distress or when there is clear evidence of compliance concerns.

Loan Servicers may schedule these reviews to take place at any time during the year. They may also need to be scheduled on short notice during the year in response to evidence of problems. When scheduling these reviews, Loan Servicers will need to coordinate with the other staff participating in the review (e.g., architectural staff).

9.6 PERFORMING MONITORING REVIEWS

A. Desk Reviews

Desk reviews are usually performed solely by the Loan Servicer and require little coordination with other staff. Performing these reviews generally involves three basic steps:

- **Preparing and Reviewing Background Material**. Loan Servicers should gather the project case file, and assemble past reports and other relevant records. In addition to reviewing these documents, Loan Servicers should also review the relevant screens in AMAS or MFIS to gain an up-to-date understanding of the project's status and potential concerns.

- **Examining the Borrower's Monthly and Quarterly Reports**. Loan Servicers then review the borrower's monthly or quarterly reports following the specific instructions in Section 2 or using the instructions that accompany the Agency's review form. Loan Servicers must make every effort to complete the review within the established time period. If additional information is needed to complete the review, Loan Servicers should promptly contact the borrower to request additional information.

- **Notifying Borrower of Any Findings**. If the review reveals deficiencies or compliance violations, the borrower must be promptly notified. The notice must describe the deficiencies and a period for corrective action. If a third party is involved in financing or providing subsidy to the property and a formal arrangement exists with this third party, the Agency will provide a copy of the notice to the third party source in order to share information concerning the Agency's findings.

B. On-Site Reviews

On-site reviews take more preparation and planning than desk reviews. The Agency expects Loan Servicers to follow the four steps below when performing on-site reviews. The actions at each step will vary depending on the type of review. The specific actions for individual reviews are discussed in Section 3.

1. Preparing for the Visit

Loan Servicers should notify the borrower and agent prior to a visit, unless the review is planned as an unannounced visit. The Agency retains the authority to visit the project, without prior notice, to observe conditions and operations and to conduct on-site reviews without the presence of the borrower or the borrower's agent.

Borrowers should generally be given two weeks notice. The notice should specify the types of preparations (if any) that the borrower must complete to assist with the review. The Loan Servicer should also coordinate with other staff who will participate in the review to clarify assignments and responsibilities.

The Loan Servicer should also review the relevant Agency records and project reports to learn the project's current status and identify potential issues that should receive special attention during the review. Finally, the Loan Servicer should fill in the background information items on the monitoring instrument.

2. Conducting the Visit

When conducting an on-site visit, Loan Servicers and other field staff should conduct an entrance interview with the manager or borrower (if available). During this meeting, the reviewers should explain the purpose of the review, describe the major activities, and indicate the type of cooperation that will be needed from project staff.

When conducting the review, monitors should follow the procedures described in Section 3 of this chapter and the instructions that accompany the monitoring tool. Reviewers must carefully record their observations to ensure that problems aren't missed or incorrectly identified.

Upon completing the review, the monitors should briefly consolidate their results and meet with the manager or borrower to present the initial findings from the review. The Loan Servicer should highlight any findings and/or violations at this meeting.

3. Notifying the Borrower

The monitors must prepare a written description of the review results for the project case file. They must also issue a letter to the borrower summarizing the conclusions of the review and indicate any follow-up actions the borrower is required to take. In addition, the results of the review should be forwarded to other offices working with this borrower or agent.

This letter (Letter #1) is sent to the borrower within 30 days of the review completion. This letter requests the borrower to respond with procedures and time frames for correcting the noted deficiencies within 15 days. The purpose of letter is to:

- Notify the borrower of review findings; and
- Provide time frames for resolving deficiencies.

As is the case with desk reviews, if a third party is involved in financing or providing subsidy to the property and a formal arrangement exists with this third party, the Agency will provide a copy of the notice to the third party source in order to share information concerning the Agency's findings.

4. Follow-Up Activities

If a review identifies deficiencies that require borrower action, the Agency needs to conduct follow-up actions as appropriate to ensure that the deficiencies are corrected. For information about findings and default situations, please refer to the Project Servicing Handbook, Chapter 10, Compliance Violations, Defaults, and Workout Agreements.

A copy of the letter is placed in the borrower's case file and must be entered on MFIS.

C. Central Office Reviews

Loan Servicers should follow the procedures presented in Chapter 3 when performing Central Office reviews of management entities.

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SECTION 2: DESK REVIEWS

9.7 QUARTERLY/MONTHLY REPORTS

Borrowers with new projects are required to submit quarterly reports. However, Loan Servicers may require these borrowers or any other borrower to submit monthly reports if the following factors exist:

- Weak financial condition;
- Sudden increases in vacancies;
- Sudden increases in accounts receivable or accounts payable;
- Violations of policy or reporting practices;
- Audit findings; or
- Failure to submit the quarterly report for two quarters.

A. Purpose

Reviewing borrower's quarterly/monthly reports enables the Agency to:

- Monitor the project's financial performance on a frequent basis;
- Look for indicators of operational or financial problems such as increased vacancies; and
- Address issues or areas of concern before they become major issues.

B. Key Areas Examined

The Loan Servicer looks at the project's income, expenses, and vacancy rates.

C. Timing

The Loan Servicer completes the review within 10 days of receiving the report.

D. Key Staff

Loan Servicers perform this review.

E. Preparing for the Review

The Loan Servicer will compile the following documentation in preparation for a review of a new report:

- Current quarterly/monthly report;

- Quarterly/monthly reports year-to-date; and
- Current project budget.

F. Completing the Review

The Loan Servicer will complete the following steps to perform the review:

- **Step 1**. Compare the current and year-to-date quarterly/monthly reports. The reviewer considers the changes in vacancy rates, accounts receivable, and accounts payable.
- **Step 2**. Compare the current report to the project budget to determine the year-to-date status of project operations
- **Step 3**. The Loan Servicer will complete the review and forward the borrower's report with any findings to the State Office by the 30th day following receipt of the report.

G. Follow-Up

If reports reveal that project expenditures are exceeding income or vacancies and accounts receivable or accounts payable are increasing, the Loan Servicer will initiate verbal and written dialogue with the borrower for further resolution of problems. Other follow-up actions may include:

- Requesting monthly reports if quarterly reports are currently being received;
- Performing an on-site review of financial records.

If borrowers fail to submit the report by the 30th day after the reporting period, the Loan Servicer will:

- Notify borrowers, in writing, of their responsibility to submit the required reports and request them to send the delinquent report;
- Notify the State Office of the borrower’s failure to submit the report to determine the Agency’s next servicing action.

9.8 OVERSEEING THE USE OF AGENCY RA

The Loan Servicer Official oversees how RA is being distributed and administered through Agency computer systems and supervisory visits.

A. Automated Systems

There are two main computer systems used in processing payments and subsidies.

1. Multi-Family Housing Information System (MFIS)

MFIS, among other things, is a Field Office database used to process tenant subsidies, such as RA and Interest Credit. This is the automated system that tabulates and maintains the data that is used to prepare *Form RD 1944-29, Worksheet for Credit and Rental Assistance*, which the borrower keys into the system. Reports can be generated for each project, based on information entered, so that the Field Office can analyze data before making administrative decisions.

2. Automated Multiple Family Housing Accounting System (AMAS)

AMAS is a computerized accounting system that set up each loan account in the National Finance Office. It was implemented to automate loan account processing and payment processing in the Field Offices and to provide an on-line link between the Field Office, the State Office, the National Office, and the Finance Office. AMAS is used to track RA obligations and usage. Each State Office has a designated AMAS Coordinator who can assist the Loan Servicer in making the best use of the system.

B. Supervisory Visits

Prior to a supervisory visit, the Loan Servicer should review MFIS records to look at trends and RA use. For example, during supervisory visits, the Loan Servicer should contact tenants identified by the borrower on *Form RD 1944-29, Worksheet for Credit and Rental Assistance*, as receiving an RA check and ask them what they are actually paying in rent. This information can be compared to what the borrower is reporting and any discrepancies investigated.

Exhibit 9-4

Multiple Uses of MFIS

- Check and approve mathematical calculations on tenant certification forms.
- Perform calculations for Interest Credit and RA Worksheets.
- Record and analyze the tenant occupancy status.
- Analyze rent overburden or vacancy problems.
- Review project status to uncover potential servicing problems.

9.9 REVIEW OF PROJECT ANNUAL FINANCIAL REPORT

The Agency Audit Guide describes the requirements of project annual financial reports, as stated in paragraph 4.33. The following describes what the Loan Servicer must do when reviewing actual operating income and expense data from the annual financial report.

A. Entering Income and Expense Actuals on MFIS

The Loan Servicer will enter the actuals on MFIS and use the analysis information provided by the system in reviewing the borrower's compliance with program regulations, while reviewing actual operating income and expense figures submitted by a borrower on *Form RD 1930-7, Multi-Family Housing Project Budget,* with year-end financial information, unless already entered by the borrower through MINC.

B. Analytical Capabilities of MFIS

MFIS uses a powerful process to prepare information for the Agency's review and analysis of project budgets with actual figures. The results of this process are available on-line or through a system-generated report. Loan Servicers must use the MFIS analysis information to review actual budgets.

The MFIS analysis process should be the primary mechanism for budget review; however, additional information may be considered when the Loan Servicer deems that it is relevant to protect the financial integrity of the project. Budget compliance decisions, which may result in findings or violations, are based on MFIS analysis information and any additional relevant issues.

C. Procedures for Reviewing Actuals Against Project Budgets

Unless already entered by the borrower through MINC, the Loan Servicer must enter the actual budget submitted on *Form RD 1930-7, Multi-Family Housing Project Budget,* into MFIS. The MFIS analysis information provides the Loan Servicer with the difference between the actual budget and the proposed budget as well as the difference between the actual budget and system-generated norms that match the profile of the project being studied. The Loan Servicer will use these results as a primary source of information for review of the borrower's actual budget.

SECTION 3: ON-SITE REVIEWS

9.10 POST-OCCUPANCY REVIEW

A. Purpose of the Review

The post-occupancy review verifies borrower compliance with program requirements for project occupancy during initial lease-up and looks at whether the procedures described in the Management Plan and Affirmative Fair Housing Marketing Plan are being followed. Specifically, the review examines how borrowers:

- Seek eligible tenants;
- Determine tenant eligibility; and
- Determine the appropriate rent.

B. Key Areas Examined

The monitor examines the borrower's rent-up activities as detailed below.

- **Project records**. These include the actions that the borrower takes to attract qualified tenants, determine tenant eligibility, and determine correct rental rate. The project's management plan and Affirmative Fair Housing Market Plan contain the borrower's procedures for tenant selection and for determining the rental rate.
- **Tenant files**. The borrower must maintain files for each tenant. Tenant files must include such information as income verification, the lease, documentation showing how tenant eligibility was established, and how the rental rate was determined.

To complete the review the staff person will also need the project's waiting lists (if applicable) and budget. These documents will be used to determine if the borrower is in compliance with the occupancy requirements set forth in Chapter 6 and the approved unit rental rates established in the project budget.

C. Timing

The post-occupancy review is conducted within 90 days after project operations begin.

D. Key Staff

The post-occupancy review is performed by Loan Servicers.

E. Preparing for the Review

The monitor should complete the following steps before going to the project site to perform the review:

- **Step 1**. Determine if outstanding issues, areas of concern, or indicators of noncompliance exist by reviewing the borrower case file and MFIS.

- **Step 2**. Notify borrower of upcoming review with the appropriate guide letter. The borrower should receive the notification letter 30 days prior to the review date to ensure that the necessary records and staff are available.

- **Step 3**. Complete the identification section of the Occupancy Summary (project name, borrower name, management agent, etc.) See revised Occupancy Review Form (**Attachment 9-A**).

F. Completing the Review

The monitor should use the Occupancy Review Form and Summary Form for guidance. The borrower will have available, the documentation requested by the staff member. The borrower may choose to be present during the review. The borrower's choice not to be present does not preclude the staff person from performing the review.

To complete the Post-Occupancy Review, the monitor must complete the following steps:

- Briefly review the Management Plan and Fair Housing Marketing Plan. This documentation is evidence that the borrower was aware of the procedures that were to be followed during initial rent-up.

- Review tenant files, waiting lists (if applicable), and budget. The tenant files should include a sample of accepted and rejected applicants. The reviewer must determine the following:

  - ◊ If requested documentation is present and adequate to perform the review;

  - ◊ Borrower's compliance with established procedures for marketing the project, qualifying tenants, determining rents, using waiting lists, and rejecting applicants.

- Complete Parts I and II of the Occupancy Review Form and Part I, II, and IV of the Summary Form.

- The monitor should conduct an exit interview with the borrower to discuss the results of the review, possible cause of deficiencies, and required solutions.

G. Follow-Up

Loan Servicers will follow up with the borrower as appropriate.

9.11 ANNUAL PHYSICAL WALK-ABOUT INSPECTION

A. Purpose

Maintaining the physical condition of the secured property is the borrower's responsibility. The Agency monitors the physical condition of the project to ensure that the property maintains its value and that tenants have housing that is decent, safe, and sanitary.

B. Key Areas Examined

The monitor will inspect the project's grounds, exteriors, and common areas. A physical inspection must be performed when the results of this review indicate that the project is not being maintained in accordance with the physical standards for the program.

C. Timing

The annual walk-about must be completed at least 90 days prior to the end of the borrower's fiscal year. This timing enables the results of the inspection to be used by the Loan Servicer during review of the borrower's proposed budget. When a complete physical inspection is not performed, the Loan Servicer completes a walk-about inspection using the exterior inspection worksheet only. If the Loan Servicer completes a physical inspection and has no findings regarding the physical status of a project, the following annual walkabout may be omitted. However, each project must receive either a walk-about inspection or full physical inspection at least once every two years.

D. Key Staff

The physical review is performed by Agency field staff. The review can be performed by staff with little or no inspection experience. However, inexperienced staff should be accompanied by an experienced Loan Servicer during their first two visits to the property.

E. Preparing for the Review

The monitor should complete the following steps before going to the project site to perform the review:

- **Step 1**. Determine if outstanding issues, areas of concern, or indicators of noncompliance with Agency requirements exist by reviewing the borrower case file, previous physical reviews, most recent inspection report, tenant complaints (if applicable), and MFIS.

- **Step 2**. Notify borrower of upcoming review with Guide Letter 1930-2. The borrower must receive the notification letter 30 days prior to the review date to ensure that the necessary records and staff are available.

- **Step 3**. Complete the identification section of the Physical Inspection Summary (project name, borrower name, management agent, etc.)

F. Completing the Review

To complete the review, the monitor will complete the following steps:

- Examine the project's grounds, exteriors, common areas;
- Photograph any deficiencies noted during the examination; and
- Conduct an exit conference with the borrower. The exit conference allows the borrower to ask questions and to prepare an appropriate response to the findings report. In this meeting the reviewer and the borrower can discuss the requirements and time frames for resolving each finding.
- Enter the results of the walk-about inspection into MFIS.

G. Follow-Up

If the noted findings involve issues of health and safety the Letter #1 is sent within 15 days after review. The letter requires that health and safety issues be resolved within 10 days.

9.12 FULL PHYSICAL INSPECTION

A. Purpose

Adequate maintenance is a crucial element in providing housing that is decent, safe, and sanitary, and for ensuring that environmental and civil rights requirements are met. The Agency regularly conducts full physical inspections of its properties to ensure that they meet established program standards.

B. Key Areas Examined

The monitor will inspect the project's grounds, exteriors, and common areas and a sample of dwelling units. The Agency will select a minimum of two units in a project or 20 percent of the units in the project.

C. Timing

Physical inspections must be conducted at least once every three years. Field staff should conduct inspections more frequently for projects with management that is unfamiliar with Agency requirements and for projects with poor maintenance performance.

D. Key Staff

Physical inspections are performed by field staff. These inspections can be performed by staff members with little or no inspection experience. However, inexperienced staff should be accompanied by an experienced Loan Servicer during their first two visits to the property.

E. Preparing for the Review

The monitor should complete the following steps before going to the project site to perform the review:

- **Step 1**. Determine if outstanding issues, areas of concern, or indicators of noncompliance with Agency requirements exist by reviewing the borrower case file, previous physical reviews, most recent inspection report, tenant complaints (if applicable), and MFIS;

- **Step 2**. Review borrower's management plan, closely review the maintenance program;

- **Step 3**. Review borrower's budgeted maintenance expenses and assess whether they appear to be in the average range;

- **Step 4**. Review work-out plan, if applicable;

- **Step 5**. Notify borrower of upcoming review with the appropriate Guide Letter. The notification letter should be received by the borrower 30 days prior to the review date to ensure that the necessary records and staff are available; and

- **Step 6**. Complete the identification section of the Physical Inspection Summary (project name, borrower name, management agent, etc. [**see Attachment 9-B**]).

F. Completing the Review

To complete the review, the monitor will complete the following steps:

- Examine the project's grounds, exteriors, common areas, and a minimum of two units or 20 percent of the units.

- Complete all parts of the *RD Form 1930-11*, *Multi-Family Housing Physical Inspection Report* including:

  ◊ Section 1—that records pertinent project information as well as summary findings from the exterior and interior physical standards worksheets;

  ◊ Section 2—that records the results of the compliance review with exterior physical standards; and

◊ Section 3—that records the results of compliance with interior physical standards.

- Review the extent of borrower compliance with the physical accessibility requirements of civil rights laws. Review the ability of the project's current budgeting and capital planning to implement any improvements identified by the borrower's transition plan. For information on transition plans, please refer to paragraph 3.4.

- Photograph any deficiencies noted during the examination.

- Conduct an exit conference with the borrower. The exit conference allows the borrower to ask questions and to prepare an appropriate response to the findings report. In this meeting, the monitor and the borrower can discuss the requirements and time frames for resolving each finding.

- Enter the results of the inspection into MFIS.

G. Findings and Violations

RD Form 1930-11 requires the reviewer to make the determination of what previously would be noted as a deficiency or a weakness, but now is reported as a "finding" or "violation."

A "finding" is a failure to meet physical standards that should be corrected through routine procedures. A "violation" is a finding that is elevated either by its severity or the Agency's inability to obtain a resolution from routine servicing methods.

If a "finding" or "violation" is identified in any sub-item of one of *RD Form 1930-11*'s 14 categories, the Loan Servicer will determine if the overall rating of that category should be coded a "finding" or "violation". A category level violation should be recorded only if the Loan Servicer intends to pursue the problem through the three servicing letter process. Elevating a finding to a violation will have an effect on the classification of a project. For information on project classification, please refer to Section 4 of this chapter.

If the results of a physical inspection indicate a finding or violation for "Common Area Accessibility," "Fully Accessible Units," or other relevant standards during a supervisory visit, the Loan Servicer should include the specific language in communications with the borrower as shown below in Exhibit 9-5.

Exhibit 9-5

Sample Language – Civil Rights Violations
Detected During Physical Inspections

"Recent Agency monitoring of the subject project indicates that you are not currently meeting your responsibilities under applicable Civil Rights laws. Since project operating or reserve account funds may be required to address this situation, we request that you advise the Agency of how you intend to comply with the law. In addition to any penalties, liabilities, or loss of tax credits that may result from legal action brought against you by third parties, continued non-compliance may result in your ineligibility to receive further loan funds from the Agency. You failed to meet the following MFH physical standard(s):

1. Common Area Accessibility (Specify)
2. Fully Accessible Units (Specify)
3. Other (Specify)."

H. Follow-Up

If the noted findings involve issues of health and safety the Letter #1 is sent within 15 days after review. The letter requires that health and safety issues be resolved within 10 days.

9.13 OCCUPANCY REVIEW

A. Purpose of the Review

The purpose of the occupancy review is to determine the borrower's continued compliance with the occupancy requirements for the project. This review also includes an examination of unit rents to ensure that they are being charged in accordance with the approved budget.

B. Key Areas Examined

The monitor reviews the borrower's occupancy procedures and rent charge calculations.

C. Timing

Occupancy reviews must be conducted at least once every three years. Reviews should be conducted more frequently for projects experiencing occupancy difficulties.

D. Key Staff

The occupancy review is performed by the Loan Servicer.

E. Preparing for the Review

The monitor should complete the following steps before going to the project site to perform the review:

- **Step 1**. Determine if outstanding issues, areas of concern, or indicators of noncompliance exist by reviewing the borrower case file and MFIS screens;

- **Step 2**. Notify borrower of upcoming review with Guide Letter 1930-2. The notification letter should be received by the borrower 30 days prior to the review date to ensure that the necessary records and staff are available; and

- **Step 3**. Complete the identification section of the Occupancy Summary (project name, borrower name, management agent, etc.). See the revised Occupancy Review Form included in **Attachment 9-A**.

F. Completing the Review

To perform the occupancy review, the monitor must complete the following steps:

- **Review project records including** marketing materials, applications, and waiting lists. The monitor should determine whether the marketing materials indicate that the project is complying with the Fair Housing Marketing Plan. The monitor should also determine whether the applications and waiting list records indicate that the borrower is complying with tenant selection requirements.

- **Review tenant files,** which should include such information as income verifications, back-up documentation, the leases, and documentation showing how the rental rates were determined. The sample files should include accepted and rejected applicants. The reviewer must determine whether:

  ◊ The borrower is maintaining adequate documentation; and

  ◊ The borrower is complying with program requirements for marketing the project, qualifying tenants, determining rents, using waiting lists, and rejecting applicants.

- Complete Parts I and II of the Occupancy Review Form and Part I, II, and IV of the Summary Form.

- The monitor should conduct an exit interview with the borrower to discuss the results of the review, possible cause of deficiencies, and required solutions.

9.14 MANAGEMENT REVIEW

A. Purpose of the Review

The Management Review is a detailed analysis of the project's physical and fiscal operations. This review enables the Agency to determine the project's financial and operational viability.

B. Key Areas Examined

This review examines the project's financial systems and controls along with its maintenance and preventive maintenance programs.

C. Timing

Management reviews are conducted at least every three years. Reviews should be conducted more frequently for projects experiencing operational difficulties or for projects that are at risk for compliance problems.

D. Key Staff

These reviews are performed by Loan Servicers.

E. Preparing for the Review

The monitor will complete the following steps prior to performing the on-site review:

- Examine the following information:
  - ◊ Borrower's case file and MFIS for outstanding issues or areas of concern;
  - ◊ Quarterly/monthly reports;
  - ◊ Management Plan;
  - ◊ Annual Budget;
  - ◊ Tenant Certifications; and
  - ◊ Monthly Project Worksheets.
- Notify borrower of upcoming review. The notification letter should be received by the borrower 30 days prior to the review date to ensure that the necessary records and staff are available.

F. Completing the Review

At the project site the examiner will review the following:

- Financial compliance and condition (see #2—the revised Project Financial Review Form);
- Rent collection practices (see #3—the revised Project Financial Review Form);
- Accounts receivable and accounts payable (see #4—the revised Project Financial Review Form);

- Reserve Accounts (see #5—the revised Project Financial Review Form);
- Capital Planning (see #6—the revised Project Financial Review Form);
- Cash Control (see #1— the revised Project Financial Review Form); and
- Cost Controls (see #13—the revised Project Financial Review Form).

The monitor must complete the Project Operations Review Form, Project Financial Review Form and the Project Operations Summary.

Upon completing the review, the examiner should conduct an exit conference with the borrower to address findings, cause of findings, and possible resolutions.

G. Follow-Up

If there are any findings or violations, the Loan Servicer should use the servicing letter process outlined in Chapter 10, Compliance Violations, Defaults, and Work-Out Agreements, of the Project Servicing Handbook to follow up with the borrower.

9.15 COMPLIANCE REVIEW

A. Purpose of the Review

The purpose of the compliance review is for Agency staff to review the borrower's compliance with the Affirmative Fair Housing Marketing Plan and/or the Equal Opportunity requirements of Title VI of the Civil Rights Act of 1964, the Civil Rights Act of 1968 as amended by the Fair Housing Amendments Act of 1988, Section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975.

B. Key Areas Examined

When conducting a compliance review at a project or at the borrower's or management agent's office, the Loan Servicer will focus on the following areas:

- Marketing procedures;
- Rental policies;
- Waiting List;
- Project and unit accessibility;
- Eviction policy; and
- Other operating policies, as relevant.

C. Timing

If initial rent-up or occupancy has not occurred by the time of initial compliance review, a subsequent review will be due one year following initial occupancy and then every 36 months thereafter. Agency staff may schedule more frequent reviews as necessary.

D. Key Staff

An authorized State Office staff member or Loan Servicer from the Field Office will complete the Civil Rights and Fair Housing review requirements. In order to conduct a compliance review, the Loan Servicer must go through training and obtain a special certification.

E. Preparing for the Review

The person planning to conduct the compliance review will review the most recent borrower's case file, the running records, correspondence, and other records to be fully aware of any outstanding civil rights violations at the project. Before completing the compliance review, the Loan Servicer should be aware of:

- The borrower's operating regulations, e.g., the grounds for eviction from a Section 515 project;
- The borrower's method of advertising the project to the public, whether there is any advertising, and how these methods will reach the minority community; and
- Any records of request for use of the project.

This awareness should be developed into an informal visit plan and include, but not be limited to such things as review of the project's marketing plan, tenant waiting list, review of applicant files, correspondence from tenants, and interviews with tenants. The Agency should send the management agent, or when applicable, the owner a written notice of the scheduled visit or inspection from the Servicing Office so that it is received 30 days before the event to ensure that needed records and staff are available for the review.

F. Monitoring Borrower Compliance with the Self-Evaluation and Transition Plan

During a compliance review, Loan Servicers must review self-evaluations and transition plans made available by borrowers. To ensure that the borrower complies with the self-evaluation and transition plan requirements of civil rights laws, during the compliance review, Agency staff will:

- Visually inspect the project to determine if there are physical barriers;
- Review the management plan to determine project management's method of informing tenants and applicants regarding requests for reasonable accommodations.

Visit and interview tenants to determine if the borrower has provided information and made reasonable accommodations upon request by the tenant;

- Visit and interview tenants in the fully accessible units to determine:
  - ◊ If the tenant has need of the accessibility features of the unit and is an eligible occupant;
  - ◊ When the tenant is an ineligible occupant of the unit, if the tenant and borrower have executed a lease attachment that requires the tenant to move if an individual needing the handicapped features applies for occupancy;
- Review the lease agreement, application, and other documentation used by the borrower to determine if policies and procedures represent barriers to occupancy;
- Review the self-evaluation plan and transition plan and compare the physical inspection to determine if there are barriers present that were not addressed or scheduled to be removed;
- Where transition plans are scheduled to remove barriers over more than a one-year period, review the transition plan and the most recently approved budget to ensure that borrower budgeting and the project's financial condition is supportive of the transition plan as written. Transition plans should include the potential cost of removing identified barriers.

G. Completing the Review

The Agency staff member who will conduct the compliance review should spend sufficient time at the project to accomplish the visit plan and any additional needs that are observed or brought out by the tenants, members, or management staff.

H. Follow-Up

The Loan Servicer should record any determination that the borrower is or is not in compliance with Title VI, together with information such as that outlined in subparagraph A above, in the running record. The preparation notes and results of each visit should be recorded and filed in the borrower's servicing file. The Loan Servicer must send a letter highlighting any needed follow-up actions and a copy of the completed compliance review report to the management agent and/or the borrower within 30 days after the visit. Follow-up will continue through resolution of any problems. Any major problems with the project will be reported in writing to the State Director with recommendations for corrective action.

The Loan Servicer must follow up with the borrower when the compliance review determines the following:

- The borrower has not completed a self-evaluation when required (see **Attachment C**).

- The borrower's self-evaluation does not adequately address required components.
- The borrower has not completed a transition plan when required by the self-evaluation.
- The borrower's transition plan does not adequately address required components.
- The borrower has failed to comply with the transition plan.
- The borrower is in noncompliance with other Civil Rights law requirements.

If one of the conditions listed above exists, the Loan Servicer must:

- Enter the appropriate finding on MFIS; and
- Give the borrower a 30-day written notice to come into compliance.

If the results of a compliance review indicate noncompliance with Civil Rights laws, the Loan Servicer should include specific language in contacts with the borrower regarding noncompliance, as shown in Exhibit 9-6.

Exhibit 9-6

Sample Language to Use When Compliance Reviews Uncover Violations to Civil Rights Laws

"Recent Agency monitoring of the subject project indicates that you are not currently meeting your responsibilities under applicable Civil Rights laws. Since project operating or reserve account funds may be required to address this situation, we request that you advise the Agency of how you intend to comply with the law. In addition to any penalties, liabilities, or loss of tax credits that may result from legal action brought against you by third parties, continued noncompliance may result in your ineligibility to receive further loan funds from the Agency. You are in noncompliance with the following: (Specify)."

If a borrower fails to either bring themselves into compliance within 30 days or to submit an acceptable transition plan to bring themselves into compliance, the Servicing Office will notify the State Civil Rights Coordinator/Manager (SCRC/M). The State Director will forward the issue of noncompliance to the National Office Civil Rights Staff.

The National Office Civil Rights staff will notify the State Director if further review and processing of the finding will either resolve the finding or require that it be forwarded to the USDA Civil Rights staff or the Justice Department to resolve the noncompliance issue.

The SCRC/M will notify the State Office MFH Program Director and the Servicing Office of the disposition of the finding of noncompliance.

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SECTION 4: PROJECT CLASSIFICATION SYSTEM

9.16 PROJECT CLASSIFICATION

The project classification system allows the Agency to focus on those projects that Loan Servicers consider truly at risk. The following paragraphs provide a brief description of how the Agency views the classification of the portfolio.

Loans may be reclassified in MFIS as findings and violations are determined or as project conditions improve.

9.17 "CLASS D" PROJECTS

"Class D" projects are in default and may be taken into inventory, be lost to the program, or cause the displacement of tenants. Defaults can be monetary or nonmonetary. For information about monetary and nonmonetary defaults, please refer to the Project Servicing Handbook, Chapter 10, Compliance Violations, Defaults, and Work-Out Agreements.

Projects in nonmonetary default are those where a Loan Servicer has notified the borrower of a violation using the Agency's three processing letter process, as described in paragraph 9.6 B, and the borrower has not addressed the violation to the Loan Servicer's satisfaction within 60 days of the first servicing letter. The Loan Servicer, State, and National Office should be aware that the project is in jeopardy and should be available to provide further servicing assistance.

9.18 "CLASS C" PROJECTS

"Class C" projects are projects with identified findings or violations. They include projects with violations where Letter #1 has been issued but 60 days have not passed. It is important to note that while the presence of a finding or violation is a normal occurrence in portfolio management, Loan Servicers will be concerned when findings and violations are carried for an extended period of time with no indication of resolution efforts. Projects under this classification for an extended period of time will alert Loan Servicers to one or more of the following:

- There may be work-load or staffing issues related to resolving problems;
- Findings may need to be elevated to violations to facilitate effective servicing; and
- Assistance from the State or National Office may be necessary to address the problem.

9.19 "CLASS B" PROJECTS

A "Class B" designation indicates that the Agency has taken servicing steps and the borrower is cooperating to resolve identified findings or violations with the use of a work-out plan.

9.20 "CLASS A" PROJECTS

"Class A" projects have no unresolved findings or violations.

SECTION 5: AGENCY MONITORING FOR LABOR HOUSING PROJECTS

9.21 OFF-FARM LABOR HOUSING

Off-Farm Labor Housing projects should be monitored in accordance with the requirements established in this chapter for other multi-family projects.

9.22 ON-FARM LABOR HOUSING

On-Farm Labor Housing projects should be reviewed by the Agency at least once every three years. During the monitoring visit, Loan Servicers Staff should review:

A. Eligibility Documentation

Borrowers should properly document that each resident is eligible to live in the On-Farm Labor Housing unit. At a minimum the borrower should have an executed lease or employment contract with each tenant and each tenant should meet the eligibility requirements established for On-Farm Labor Housing tenants in Section 9 of Chapter 6.

B. Financial Information

The borrower must document that the on-farm labor housing unit(s) are being operating in a nonprofit manner. At a minimum the borrower should develop an operating budget that demonstrates revenues equal expenses and the borrower is not receiving a return from the property.

C. Operating Plan

The review of the operating plan should also ensure that the property is being managed in a nonprofit manner, that tenant requests and grievances are being handled in a timely manner and in accordance with the management plan.

D. Loan Agreement

The review of the loan agreement should ensure that the borrower is in compliance with the agreement made to the Agency to provide adequate housing to the employees in the borrower's employment and not to charge rent, unless otherwise approved by the Agency.

E. Security Deposits

If the borrower has charged security deposits to the tenants, then the review should ensure that security deposits are being managed in accordance with State and/or local law.

F. Payment of Taxes and Insurance

The review of taxes and insurance should ensure that taxes are being paid in a timely manner and at the very minimum to ensure that the borrower has adequate insurance in place to cover replacement of the property in the event of a loss.

SECTION 6: STATE OFFICE OVERSIGHT OF SERVICING ACTIVITIES

Once the Servicing Office has conducted routine oversight and reviewed its portfolio, the State Office has a responsibility for additional oversight in a broad sense. The goals and responsibilities of State Offices are described below.

The State Office will use MFIS as the database for maintaining and analyzing project financial information as well as recording and tracking project supervisory activity and servicing efforts.

9.23 PORTFOLIO MANAGEMENT GOALS

Proper asset management of the Agency's multi-family portfolio begins with a thorough evaluation of the entire portfolio to obtain a clear understanding of existing and potential problems. Close monitoring, timely follow-up, and a consistent administration of the regulations will be beneficial in the resolution of problems and will contribute to the stability of the program.

While during prior years the Agency has achieved success in the management of the portfolio, the 515 program continues to present challenges. These challenges require staff at all levels to be better prepared. Staff must be provided with training, resources, and support to meet these challenges. The mission, goals, and plan of action for effective loan servicing and portfolio management of the 515 program are described below. For tracking adherence to these goals, State Offices should look at the appropriate MFIS or AMAS report unless specified otherwise.

A. Mission Statement

The mission of the Section 515 program is to provide decent, safe, sanitary, and affordable housing to very low- and low-income rural residents. As the mission is realized, the program must also protect the government's security and taxpayers' investment by ensuring effective asset management.

B. Goals

1. Reduce Receivership Periods to No More than 12 Months

The oversight process of a property held in receivership by the Agency requires close monitoring and supervision by the National Office and affected State and Servicing Offices. This will include the review of property financial records such as monthly reports, year-end reports, and annual audits. Additionally, the staff is responsible for review and approval of the payment of certain expenses.

Several receivership properties have special needs and will need to be serviced within the parameters of a workout plan. Others will require sales and/or other liquidation plans. To transition out of the receivership, it will be necessary to focus efforts on obtaining new substitute general partners, transfers of ownership, or to liquidate accounts.

2. Reduce Inventory Property Holding Periods to No More than 12 Months.

Affected State Offices must review their inventory property portfolio and take necessary actions to effectively dispose of these properties. To accomplish this, all efforts should be given to marketing the properties, including reducing the price, sealed bids, or sale as a nonprogram property. All inventory properties should be managed and made ready for sale in the most expeditious manner using the authorities in RD Instructions 1955-B and C.

The National Office should be contacted for assistance in the sale of a property experiencing marketing difficulties. Reports to the National Office on the disposition of inventory properties will be requested on a case-by-case basis. States will be contacted to determine what efforts are being made to remove these properties from the inventory and what assistance can be provided by the National Office.

3. Use Debt Settlement Authorities to Reduce Certain Long-Term Delinquencies

A number of long-term delinquencies are the result of inactive accounts with loan balances remaining after the asset is liquidated (i.e., foreclosure, sale, or transfer for less than the debt, compromise offer, bankruptcy, etc.). These accounts need to be settled due to their negative impact on the overall multi-family housing delinquency rate. State Offices are to immediately request assistance of the Office of General Counsel, the Assistant United States Attorney and/or the National Office when accounts in this category are determined to exist.

The National Office will run a monthly FOCUS report on inactive accounts to monitor progress and to determine whether National Office intervention is needed to expedite the process.

4. Maintain a Delinquency Rate of Two percent or Less

All States with delinquency rates that exceed two percent are required to work with borrowers and take appropriate servicing actions to reduce their delinquency rates to two percent or less.

Borrowers who are consistently delinquent require aggressive servicing and counseling regarding late payments. If long-term delinquency is the result of pending litigation for liquidation, appropriate officials should be notified and encouraged to expedite such litigation. When States are experiencing difficulties with litigation officials or when the loan is part of a long-term work-out agreement, the National Office should be contacted for assistance.

Any State with average delinquency rates above the two percent national average will be closely monitored and contacted by the National Office to determine what efforts are being made to reduce the delinquency, and to identify whether assistance or training is needed. Delinquency status reports may be required from those States identified as having problems. Similarly, any States exhibiting a trend in increasing delinquencies may be required to submit an explanation or a plan of action. Any instances of Servicing

Offices holding payments and not processing them in a timely manner must be discontinued immediately. All payments are to be processed when received.

5. Take Appropriate Action on All Operating Budgets and Utility Allowances Prior to the Beginning of a Project's Fiscal Year

7 CFR 3560.303 states that project budgets and/or utility allowances must be prepared, reviewed, and approved in such a manner and timing that the approved budget and utility allowance, including changes, become effective at the beginning of a fiscal year of project operation. This includes the update of MFIS to indicate approval actions. All approval budgets are to be reviewed and approved on MFIS prior to the start of the borrower's fiscal year. If not, MFIS should indicate that a finding has been generated for either a "not received" or an "unacceptable" budget.

6. Complete All Year-End Financial Reviews Within the Required Time Frame

The "Actuals" listed on *Form RD 1930-7*, *Multi-Family Housing Project Budget*, the Balance Sheet on *Form RD 1930-8, Multi-Family Housing Borrower Balance Sheet* and the project audit are to be reviewed and any findings entered on MFIS within 60 days of their receipt. The borrower is to be notified of the results of the review and MFIS is to be updated accordingly.

7. Complete All Annual Physical Inspections of All Properties

The purpose of the annual physical inspection (walk-about) is to quickly determine whether there are potentially serious problems that may require immediate attention. In addition, unless previously addressed during the supervisory visit, a determination should be made if the common areas are accessible as required by Fair Housing Law. All necessary walk-about inspections must be completed. All findings and follow-ups must be entered into MFIS.

8. Complete All Scheduled Supervisory Visits and Compliance Reviews as Required

The Supervisory Visit includes the MFIS supervisory activities "triennial physical inspection," the "supervisory visit," and the "compliance review." The supervisory visit is the Agency's primary tool to complete in-depth analysis of the borrower operations with regard to Management Plan/Agreement, Fair Housing, tenant eligibility, file review, budget compliance, and building security and maintenance. The borrower is to be notified of findings and deficiencies and given a timetable to correct all problems. Any summary level findings must be entered into MFIS.

9. Enter All Instances of Noncompliance on MFIS

States reporting very few findings and violations per project are to review inspection analysis and reporting practices so that servicing routines are adequate to ensure proper discovery and reporting of borrower noncompliance. In addition, all states are to review and ensure that proper steps are completed to resolve findings and that those requiring additional resources to be resolved are identified as such.

10. Review Multi-Family Housing Occupancy Statistics to Ensure Portfolio Exhibits Positive Trends

State Directors and program managers with multi-family housing responsibilities are to review multi-family occupancy statistics on a quarterly basis to ensure that their portfolio exhibits positive trends in occupancy statistics. While market conditions may affect the accomplishment of positive trends, efforts must be made to use available resources as effectively as possible. These efforts include but are not limited to:

- A higher percentage of RA use;
- Lower vacancy rates; and
- A lower number of tenants overburdened by housing costs.

11. Ensure MFIS data is Accurate, Consistent, Timely, and Complete and Used to Manage the Multi-Family Housing Program

When used correctly, MFIS enables the Agency to effectively manage the multi-family portfolio and ensure the proper use of Federal housing resources. Staff at National, State, and Servicing Office levels have immediate access to portfolio information in order to make better program management decisions, and more effectively deploy limited resources. With the implementation of MFIS3 the ability to review portfolio activity now extends to borrowers and management agents as well as servicing office jurisdictions.

Effective management decisions rely on the accuracy, consistency, timeliness, and completeness of information such as a property's physical and financial condition, and the tracking and scheduling of supervisory activities and servicing efforts.

- State and Servicing Offices are required to input the current status of all servicing actions into MFIS. The State Office must monitor the MFIS activities of Servicing Offices to ensure that data is accurate, consistent, timely, and complete and that regulatory authorities are effectively used to manage the portfolio and determine that Agency resources are effectively used to obtain compliance.
- The National Office monitors portfolio management of properties through MFIS reports as well as AMAS information. A quarterly National Office review will be used to measure the accomplishment of the goals contained in this Administrative Notice.

C. Plan of Action

The implementation of the Loan Servicing and Portfolio Management Goals and accuracy of all data are the responsibilities of the State Director. The State Director may assign one or more individuals the responsibility of monitoring servicing activities, follow-up, and problem resolution as outlined in this plan.

D. Specific State Office Duties

State Office staff must continuously monitor supervisory activities and borrower status to ensure that each project is receiving timely and effective supervision. MFIS should be used to accomplish these monitoring responsibilities.

State Directors must review summary results of each project's annual review through MFIS.

At least quarterly, State Offices must print out and review the MFIS project classification report. For projects classified with a D or C, State Offices must review the project's supervisory and servicing status on MFIS, using either reporting or on-line capabilities to determine the nature of the finding, violation, or default, and the extent of the Loan Servicer's efforts to resolve the problem. The State Office should retain sufficient paper documentation of the annual review process to ensure that future reviewers will be able to determine that the appropriate annual review and coordination efforts were performed. State Directors are responsible to ensure that MFIS classifications accurately reflect the servicing status of their jurisdiction.

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ATTACHMENT 9-A
OCCUPANCY REVIEW FORM

ATTACHMENT 9-B

PHYSICAL INSPECTION FORM

ATTACHMENT 9-C

MANAGEMENT REVIEW FORM